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Restaurant Business

JULY 1, 1989

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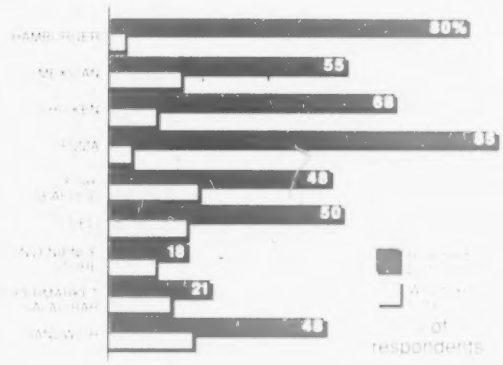
THE HARD FACTS SHAPING OUR INDUSTRY



Burgers, Pizza Favored

In a special mail-out survey of 1,100 adults nationwide, Technomic Inc. found that hamburger and pizza appear to be individuals' most popular choices when they visit fast-food places. More than 80% of respondents chose these items over a three-month period. Convenience stores attained the lowest response rate—just 18%—for the same period. Fish seafood, sandwich, and deli places received the highest response ratings (25%, 20%, and 18%, respectively) when respondents were asked about the items they would like to try.

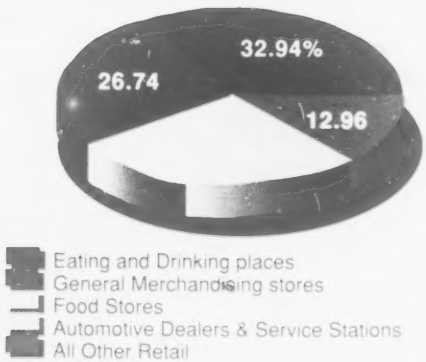
SOURCE: Technomic Inc.

Real Sales Up

The *Restaurant Business* Eating and Drinking Place Index shows real sales trends adjusted for seasonality and inflation through a 12-month average.

Figures from the U.S. Dept. of Commerce moved the March 1989 Index to 116.26, meaning that in real terms, sales are 16.26% higher for the 12 months ending in March 1989 than the average sales for the period from 1989 through 1984. This is up from the Februrary 1989 index of 115.70%. Eating and drinking place sales are up 2.9% in real terms over the past 12 months.

SOURCE: U.S. Dept. of Commerce, Technomic Inc.



Top Retail Employer

Preliminary reports from the U.S. Dept. of Labor show that nonseasonally adjusted employment at eating and drinking places rose to 6.338 million in March 1989. This represents the lion's share (32.94%) of all retail trade employment—nearly unchanged from the 33.00% in March 1988. Employment from eating and drinking places represents 7.7% of all service-producing employment, while all retail trade industries represents 23.4%. Last March, eating and drinking places were 5.9% of all nonagricultural employment.

SOURCE: U.S. Dept. of Labor, Bureau of Labor Statistics, Technomic Inc.

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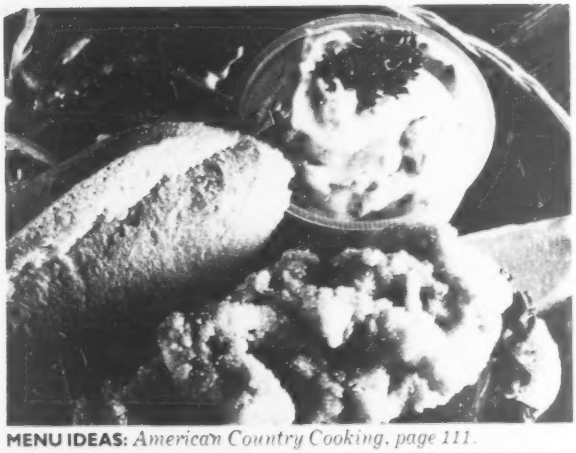

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Cover photograph by Herman Kokojan/Black Star

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The Seventh **SYMPOSIUM ON AMERICAN CUISINE**, *co-sponsored by* Restaurant Business, *will take place in Santa Fe, NM, Sept. 10-13, 1989.*

For more information, contact: Symposium on American Cuisine, 304 W. Liberty St., Suite 301, Louisville, KY 40202.

REPRINTS, INDEX AVAILABLE

Restaurant Business *now has available specially prepared reprints of the* **1988 RESTAURANT GROWTH INDEX** *and the* **1989 MAJOR FORCES IN FRANCHISING**. *The reprints are available for $5 per copy.*

In addition, Restaurant Business *is now offering its* **1988 EDITORIAL INDEX** *for $25 per copy.*

Direct all reprint inquiries to: Editor Peter Berlinski, Restaurant Business *Magazine, 633 Third Avenue, New York, NY 10017.*

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IN THE NEXT ISSUE

COVER STORY

EMERGING GROWTH CHAINS

This special annual report analyzes the Top 50 Growth Chains—medium-sized chains that have sustained annual growth exceeding 10% despite tough market conditions. Comparative data and concise descriptions of each of the 50 chains are included; in addition, we take an in-depth look at Pizzeria Uno, a growth chain that has maintained particularly solid profits. Boston-based Pizzeria Uno has attracted an impressive roster of well-known franchisees, including Art Gunther, one-time president of Pizza Hut, Jeff Campbell, former chairman of the Pillsbury restaurant group, and Lou Neeb, former head of Burger King.

MARKET SEGMENT REPORT

CHICKEN

The chicken segment is buffeted by challenges, including competition and consumer health concerns. Though segment leader Kentucky Fried Chicken is expanding steadily—if conservatively—the smaller chains are in flux. The merger of Church's with Popeyes is one interesting development, and the smaller regional chains are struggling for market presence.

MENU IDEAS

TAKE-OUT

Food-to-go continues to represent unparalleled opportunity for additional revenues. But operators must be careful that a carry-out business does not interfere with the core business, and they must utilize systems, recipes, and packaging programs that will enhance the appeal and profitability of their take-out options.

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EDITORIAL STAFF
EDITOR Peter R. Berlinski
EXECUTIVE EDITOR Joan Lang
MANAGING EDITOR Tom Strenk
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NEWS EDITOR Howard Riell
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CONTRIBUTING EDITORS
Carol Casper, Don Nichols, Jacque White Kochak, James Peters

PRESIDENT/GROUP PUBLISHER Jeffrey P. Berlind

Editorial Office
633 Third Ave., New York, NY 10017
(212) 986-4800

Midwest Office
180 N. Michigan Ave., Chicago, IL 60601
(312) 782-1266

West Coast Office
10540 Talbert Ave., East Tower, Suite 150
Fountain Valley, CA 92708
(714) 964-6470

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THE NEW AGE OF DISTRIBUTION

DISTRIBUTORS OFFER A VARIETY OF 'VALUE-ADDED' SERVICES TO OPERATORS.

The distribution business is changing, and for the most part, it's changing in favor of the operator, who is now being marketed to as never before.

"*Value-added* must be a new buzzword," says one East Coast restaurateur, in reference to distributor services above and beyond delivery. The term is in fact relatively new, an '80s concept—and the last half of the '80s at that. But it is an increasingly important one, revolutionizing the way in which operators are doing business with their distributors.

Indeed, the value-added approach appears to be a concept whose time has come: "Distributors almost have to be able to provide these services," says an executive from a major Midwest restaurant franchise operation. "Food costs are escalating, and what we can charge our customers is not necessarily keeping pace. We have to make sure we can get the yield we need.

"I feel the value-added services we receive help us to do that," he adds.

Just what are some of these services that could play so important a role in a foodservice operator's business?

BETTER JOB. Most simply, value-added services are any perceived (by both distributor and operator) as extra—not part of the distributor's daily job of taking orders and filling them accurately and on time. And, most important, they are services that help an operator do a better job at his own end.

What's in it for distributors? By providing such services—most at no additional cost—they are seeking to differentiate themselves from their competition, giving operators more incentive to do business with them.

In the last five years, these extras have evolved from specialist help and merchandising aids on different menu or product categories, to seminars accredited toward professional certification, to sophisticated order entry and inventory control options, and more.

The list could go on endlessly: nutritional analysis; quality control testing; waitstaff training; salad bar merchandising; idea shows geared to specific segments; lock-ins on order fill; help with insurance purchasing.

Even the attentiveness and expertise of a distributor's sales reps and drivers can be considered value-added—it all depends on what a restaurant operator feels adds value to his order.

And just what does add value is also reflective of the type of operation that is being supplied—a fast-food chain, for example, has very different expectations than a full-service restaurant organization. And, for that matter, a local independent does not have the same kinds of service needs as a regional or national operator.

PRODUCT EDUCATION. For a full-service operator, product education is a major component of value-added services. Doug McKinnon, vice president of Universal Restaurants Inc. in Grand Rapids, MI, the largest franchise holder of Mr. Steak, defines value-added services as "anything that helps me in my knowledge of the business or products, beyond order and delivery."

Universal operates 10 midscale, family-oriented restaurants in its Midwestern division and another 10 in its Eastern division, which together generate $25 million in annual sales. With primary distribution programs in both markets—one with Gordon Food Service Inc. in Grand Rapids, MI, and the other with J.F. Feeser Inc. in Harrisburg, PA—this major operator utilizes a variety of distributor services.

Responsible for the Midwestern division, McKinnon notes that his program distributor provides a great deal of help with product knowledge. "Gordon goes into new products in great depth," he notes.

Toward this end, the distributor has taken McKinnon's managers right to manufacturing plants, he says.

Furthermore, Gordon has its own staff of product specialists. "When we have food committee meetings to look at new products or determine seasonal items, these specialists show us new and exciting ways to present products and new items for different parts of the menu. They do a good job of keeping us aware of trends."

It should be noted that, while brokers also provide such services, McKinnon feels that distributors do a better job. "The broker view is biased toward the individual manufacturers they represent," he explains. "Distributors can present a much broader view and are more concerned with the customer angle—that is, they are more concerned that we get the right item."

Product education in general is a ser-

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BY STEPHANIE SALKIN

vice so important that even limited-menu chains—despite a no-frills approach to the distributor relationship—may utilize it.

A good example is Al Highfield, vice president, sales and marketing, Jeffrey Enterprises of Kentucky Inc., a Louisville-based purchasing organization representing 2,000 Kentucky Fried Chicken franchises nationwide. Highfield acknowledges the usefulness of educational help even for a major organization like his, which makes $60 million worth of purchases a year.

"Education—there is never enough of that," he comments.

New concepts have been born, says Highfield, because distributors have meeting rooms with fully equipped test kitchens where franchisees can meet. "Some of the best ideas come out of the field, not out of the franchisor's R&D," he notes. "That's where the distributor comes into play. Working together in his kitchen, through the combined efforts of the store owner, distributor, and manufacturer, we have been able to come up with new menu ideas and better ways of doing things."

He cites as an example a new, highly successful technique for filtering shortening that is now in place in the units he represents.

Well aware of their usefulness, many distributors are increasing the number of education services they offer to operators. Nutrition expertise is one of the newer forms of value-added education distributors have been offering—an increasingly important type of knowledge for operators dealing with a more health- and calorie-conscious public.

PRODUCT EDUCATION IS ONE SERVICE ANY OPERATOR CAN USE.

"Our distributor, Sandler Foods, has dietitians on staff, and I find this very helpful," comments Tom Evaldi, executive chef, Gus Mariner Restaurant, a $2.5-million-a-year white-tablecloth restaurant in the Ramada Oceanside Tower, Virginia Beach, VA. "With this service, Sandler keeps me abreast of new heart-healthy products such as an oil made from canola beans." This new product is so exciting, says Evaldi, that the upscale Ramada franchisee may publicize it in a customer newsletter.

SALES REP AS CONSULTANT. Education is probably most important to independent operators who do not have the benefit of national or regional R&D programs of their own. And it is among such operators that the perception of value-added services is most likely to apply to the operator's primary distributor contact, his sales rep.

"I'm not looking for a salesman to whom I'm just a customer," comments J.K. Lea, owner, J.K.'s Pub, Columbia, MD. "I'm looking for someone who knows what products are appropriate for my operation and who knows how to price my menu, someone who will also tell me what *not* to buy." A distributor is "only as good as the people in-house," Lea adds.

Currently, this $900,000-a-year operator is poised to go on a primary distributor program with Kraft Feldman, Savage, MD, through which he will gain still other value-added services, most particularly, help with inventory control and ordering. "As a small operation, we're dependent on our kitchen manager," he explains. "The order goes to hell if he's not there."

Once J.K.'s goes on the program, the full-service, moderate-price lunch and

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A DECADE OF GROWTH

THE CORPORATE 'SUPER' DISTRIBUTORS

Sales to Foodservice Operators, in billions

Company	1988(E)	1978	%Change	% of Total Industry 1988 ($93 B)	% of Total Industry 1978 ($44 B)
Sysco Corp. Houston, TX	$ 5.3*	$0.74	600.2%	5.7%	1.7%
Kraft Inc. Foodservice Group Deerfield, IL	2.8	0.10	2,700.0	3.0	0.2
PYA/Monarch Inc. Greenville, SC	2.3**	0.47	300.8	2.5	1.1
CFS Continental Inc. Rolling Meadows, IL	1.8***	0.72	100.5	1.9	1.6
Rycoff-Sexton Inc. Los Angeles, CA	1.3	0.59****	100.2	1.4	1.4
TOTAL/AVERAGE	$13.5	$2.62	415.3	6.0	14.5

* Includes five mos. sales of CFS Continental ($900 million), acquired in August, 1988.

** In 1989, CFS Continental was split into two entities: the $1 billion northern division, which operates under separate ownership; and the remaining distributorship, which is regional in scope.

*** Includes volume for first seven months of year only; remaining $900 million is counted as part of Sysco's.

**** Represents combined sales of Rycoff an Sexton, which were separate companies in 1978.

dinner house will have its pars on computer. Thus, any employee will be able to key in orders automatically, because the distributor will have the account's regular usage on record.

Universal, too, recently went on an automated order-entry program, with Gordon in the Midwest. At the same time, the regional operator can access current pricing from the distributor's computer at any time. "This service has proved very helpful with menu planning," McKinnon notes.

COMPUTER SERVICES. For that matter, Universal can access nutritional product breakdowns by computer.

Such automatic order entry and accompanying inventory control and product information programs are among the more recent additions to the roster of value-added services offered by distributors.

Some of these programs allow operators to order in their own codes or in storeroom sequence, or flag order-entry errors and oversights, or track rebates. Some have voice prompts, and one in the Boston area—provided by a local specialty house—even allows operators to order verbally, "recognizing" their voices.

In a number of cases, large-volume operators are receiving their own personal computers with which they can call up all kinds of information from the distributor's computer, including current pricing, up-to-the-minute stock status, and recipes. These operators also can use the PC as an electronic mailbox by which to contact their distributor rep.

In other cases, operators are supplied with automatic order-entry devices identical to those carried by distributor reps. And, in still others, operators can call distributor in-house reps who will themselves input the order automatically.

Automated services are of particular interest to limited-menu and other multi-unit operators, for whom distri-

1988 TOP 10 BROADLINE DISTRIBUTORS

SYSCO CORP.
HOUSTON, TX

$5.3 billion foodservice sales

79 distribution centers nationwide, including 14 branches of two systems distribution companies. Acquired CFS Continental in August 1988.

KRAFT INC.
FOODSERVICE GROUP
DEERFIELD, IL

$2.8 billion foodservice sales

45 broadline distribution centers nationwide. Has grown dramatically through acquisition in the last several years. Parent company was recently acquired by Philip Morris Company Inc., which also owns General Foods USA and Oscar Mayer. A restructuring has joined the Kraft Foodservice Group with the Kraft Food Ingredients Group to form a new Kraft U.S. Commercial Group.

PYA/MONARCH INC.
GREENVILLE, SC

$2.3 billion foodservice sales

31 distribution centers, including five Morco limited-menu specialists acquired last year. Later this year, the northern division—which accounts for about $1 billion in foodservice sales—will be purchased from parent Sara Lee Corp. by a group of the distributor's executives. Following this buyout, PYA/Monarch will once again be a southeastern regional distributor.

CFS CONTINENTAL INC.
ROLLING MEADOWS, IL

$1.8 billion foodservice sales (first 7 months, 1988)

$900 million for last 5 months of 1988 is counted as part of Sysco's following merger with the No. 1 broadline, generalist distributor. CFS was nationwide with 30 branches.

RYKOFF-SEXTON INC.
LOS ANGELES, CA

$1.3 billion foodservice sales

33 distribution centers nationwide. Particularly strong in nonfoods; offers contract design capability in more than 10 cities.

WHITE SWAN INC.
FORT WORTH, TX

$650 million foodservice sales

Southwest regional network with eight branches, one of which lies outside its regional network—in Hurricane, WV. This latter branch was part of a recent acquisition. White Swan had been a subsidiary of The Fleming Companies, the giant wholesale grocer, but has been purchased by distributor management in a leveraged buyout.

FOOD SERVICES OF AMERICA
KENT, WA

$611 million U.S. foodservice sales

Pacific Northwest regional with 24 U.S. locations, including two in Alaska. All but these and the Kent facility—the original Miller Cascade Foods—evolved from Pacific Gamble Robinson Co., the produce-oriented regional acquired by Miller Cascade several years ago. FSA has been actively consolidating and modernizing these operations, at the same time broadening its lines. Member of ComSource controlled label group.

GORDON FOOD SERVICE
GRAND RAPIDS, MI

$560 million foodservice sales

Two distribution centers, both in Michigan. Rapidly expanding regional is entering major cities throughout the midwest, including Chicago, with the help of state-of-the-art warehousing.

BIGGERS BROTHERS INC.
CHARLOTTE, NC

$357 million foodservice sales

Two distribution centers covering a mid-south territory. Now a subsidiary of a new holding company, Unifax, formed by Biggers and two other major broadline distributors, Bevacq Food Service, Pittston, PA, and Roanoke Restaurant Service Inc., Salem, VA. All three belong to ComSource controlled label group.

SHAMROCK FOODS CO.
PHOENIX, AZ

$350 million foodservice sales

Southwest/Rocky Mountain regional with one distribution center in Phoenix, the other in Denver. Strong independent business as well as multi-unit. To enhance the latter, Shamrock has joined a new national account marketing group, Distributor Marketing Alliance. Member of F.A.B. controlled label group.

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bution costs are a major consideration. Through such services, these operators can get velocity (usage) reports by vendor or product, regular market briefings on commodity items, and purchase histories to facilitate ordering.

In addition, these computer reports help headquarters management determine whether units are sticking to the program.

"Our distributor provides us with velocity reports, so I can see what our units are buying," notes Ray Ganem, supervisor of restaurant and hospitality programs, Truck Stops of America, Cleveland. "This enables me to see that they are buying the products I'm specing, and it also shows me when I should be going to the manufacturer for better pricing."

Ganem also notes that his distributor network—three branches of PYA Monarch Inc.—tracks rebates for him, fronting them as dollars off invoice. "This program alone is worth better than $100,000 a year to me in work that I don't have to handle myself."

Truck Stops of America, a national full-service chain of 37 coffee-shop restaurants open around the clock, rings up an average check of $3.75. Its product list numbers several hundred items.

Still other facets of the distributor

DISTRIBUTORS CAN HELP OPERATORS STAY ABREAST OF TRENDS.

customer relationship fall into the value-added category.

SHOWS AND SEMINARS. Distributor shows, for example, while usually selling events contributing to the distributor's business, are seen by many operators as opportunities for face-to-face contact with suppliers and as arenas for product education.

"We're on a cost-plus program, so we don't go to these events to take advantage of special show pricing," comments Universal's McKinnon. "What we go for is the product knowledge and to keep our finger on the pulse of the industry."

McKinnon notes that the National Restaurant Show held annually in Chicago, by comparison, is "overwhelming." It's easier to talk with suppliers at a distributor show, he says. In addition, manufacturers are apt to have more items on view at a distributor show—all the "popular" ones in that market—he adds. Then again, many distributors hold professionally accredited seminars in conjunction with their food shows, at which chefs and other foodservice operators can earn course credits toward professional certification.

Evaldi of Gus' Mariner Restaurant, for example, points to a Culinary Salon held by Sandler Foods in conjunction with its recent food show. This salon was ACF-approved, so exhibitors could earn points toward accreditation from the American Culinary Federation.

"An exhibition like this is unusual outside a major city," comments Evaldi, who is also treasurer of the local ACF chapter. "A lot of people in this area have never seen a real culinary salon. It helps build awareness of what can be done."

In addition, more and more distributors are starting to hold specialized shows geared toward particular segments, such as catering.

OTHER APPROACHES. There are also some more unusual value-added services. Lea of J.K.'s Pub, for example, was able to utilize a personnel placement service offered by Smelkinson/Sysco, Jessup, MD. "It worked out famously," Lea notes. "Smelkinson's staff executive in charge of the service qualified these people right down the line. She knew our operation, and she knew that the people would fit."

Other services are product-related. McKinnon of Universal feels that produce processing offered by Gordon is a service plus. Lea feels the same about distributors who employ field service specialists for dispenser equipment.

For limited-menu operations, however, "value-added" often means less rather than more. This is because any services provided must be consistent with tight distribution cost control.

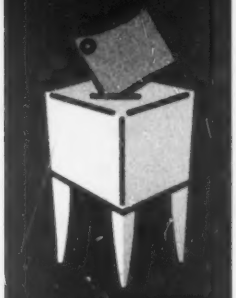
Low-overhead custom distribution is the key to services sought by these operators. "Value-added is in specialization," notes Highfield of Jeffrey Enterprises.

In addition to getting a better bottom line, by going with distributors that tailor their lines to KFC needs, Jeffrey Enterprises is guaranteed higher stock levels than possible with broadline distributors stocking many more items, Highfield points out. ■

MENU: VALUE-ADDED SERVICES

- Product Specialists and Merchandisers
  e.g., center-of-plate, tabletop
- Market Specialists
  e.g., chain accounts, deli/bakery
- On-Staff Dietitians (nutritional analysis of menu)
- On-Staff Chefs (menu ideas)
- Full Test Kitchens
- Professionally Accredited Seminars
- Operator Newsletters
- Segmentized 'Idea' Shows
- Automated Order Entry
- On-line Access to Current Pricing and Product Information
- Monitoring of Manufacturer Rebates
- Quality Control Testing
- Personnel Registry
- Waitstaff Training
- Group Insurance Plans for Small Operators

NOTE: This is a broad range of services. Check with your distributor to see which, if any, he may offer or be planning to offer. Minimum order sizes are required to qualify for at least some of these services.



MARKET SEGMENT REPORT

STEAK

REPORTS OF THE DEMISE OF the steak segment have been much exaggerated. Apparently, customers still enjoy eating beef. What is also apparent is that the American consumer's growing sophistication and continuing quest for quality have profoundly affected the segment.

The budget steak-house chains that flourished a decade ago have been most affected by the changes. For all intents and purposes, industry observers say, that category is dead.

"There's no place anymore for the budget steak house in its traditional form—a dark, old place serving small portions and 'cow' meat," says Sizzler Restaurants International president Tom Gregory. "I think that if we hadn't gone through an evolutionary process, Sizzler would be out of business."

Midprice steak houses have fared best by holding to a steady course. Upscale steak houses are thriving by delivering the value of top-quality steak.

"We're sure not seeing a drop in interest in steak," maintains Mary Jo Newburg, director of sales and marketing for Morton's, a chain of 10 upscale steak houses with headquarters in Chicago. "People may not be consuming as much red meat at home, but they do come to places like Morton's for a good steak and an evening out."

COMPETITIVE CLIMATE. Competition in the steak segment is intense. "We're fighting for market share," says Steve Fortlouis, director of marketing for Raleigh, NC-based Golden Corral steak houses, with some 500 units.

"The competition is such that it's not likely that another steak chain could develop," says Julia Stewart, vice presi-

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Most of the steak chains have broadened their menus so much that the segment has become blurred.

By Jacque Kochak

Even Stuart Anderson's Restaurants, which mainly focuses on beef, offers items such as this shrimp-and-steak combination dinner.

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Despite some image problems, beef is still consumed far more frequently than either chicken or seafood.

dent of marketing for Los Altos, CA-based Stuart Anderson's Restaurants.

Good service has also become increasingly important in the steak segment. "Five years ago, customers expected to get served fast and get okay food," says Jeff Rogers, president of USACafes, parent of Bonanza. "Now the customer is much more discerning."

CONSUMPTION QUESTION. Despite some image problems, beef is still consumed far more frequently than either chicken or seafood. On an edible weight basis, Americans eat almost 70 lb. of beef a year, compared to 43.4 lb. of chicken and 15 lb. of fish, according to the United States Department of Agriculture (USDA).

Nevertheless, beef consumption has declined about 20% since 1978, the heyday of inexpensive and plentiful red meat. According to the Beef Industry Council, Americans consumed 74.3 lb. of beef in 1985, 74.1 lb. in 1986, and 69.2 lb. in 1987. "How much beef consumers eat is related to the amount available, and in recent years there has been less beef available," says Mary Adolph, director of foodservice for the Beef Industry Council.

Some chains, which began by specializing in low-priced steaks, have repositioned so drastically that they no longer consider themselves to be part of the steak segment. Yet an analysis wouldn't be complete without a discussion of their changes.

Most notable is Los Angeles-based Sizzler Restaurants International, owned by Collins Foods. Steak sales at Sizzler have been dropping for the last 10 years, says Gregory. A decade ago, 90% of Sizzler's sales were derived from steak; today, only 25% of sales come from steak. Sizzler's menu now emphasizes seafood, chicken, and an extensive salad bar, in addition to steaks. Over the years, the company has also added soup, pasta, and taco bars.

The goal of this repositioning was to increase sales and profits by appealing to the "heavy user" restaurant patron as well as taking advantage of changes in lifestyles and eating preferences.

The 625-unit chain's policy of evolutionary menu expansion has made Sizzler more of a casual family dining experience, and that formula is working well. In the five-year period 1983 to 1988, average unit sales volume rose more than 60%.

According to Gregory, Sizzler is still seeing steady sales increases. Systemwide sales for the calendar year of 1988 reached $950 million, and expansion is continuing at a rapid rate. Some 60 to 80 units, about a third company-owned, will open over the next couple of years.

Another of the budget steak-house chains that shed its identity is Dallas-based Bonanza, franchised by USACafes. Bonanza has also moved to offer more chicken and seafood as well as an extensive salad bar. Red meat continues to decline as a percentage of sales.

Some 620 units are now open—only two are company-owned—with 60 opened in 1988 and another 90 under development in 1989. That total includes the conversion of 35 to 45 York Restaurants in the North and Northeast, which were purchased by franchisees from General Mills Restaurant Group. In addition, Bonanza just opened its first unit in London.

"Sales have been fairly strong," says USACafes' Jeff Rogers. Systemwide sales in 1988 reached $570 million for 612 units.

Currently, a lot of remodeling is going on, with units being dramatically upgraded and the chain's extensive food bar being positioned as the star of the dining room. Dining rooms have opened up with more glass, and are now accentuated with brass and lighting.

Bonanza's menu also continues to evolve. The newest additions, called Lighter Fare, are scattered throughout the salad bar. Lighter Fare selections are billed as more nutritious and natural, and come from a selection of about 60 recipes, says senior vice president of marketing Will Clayborn.

"We feel we are positioned for the '90s," says Clayborn. "The response has been good." Lighter Fare has been rolled out in a third of the chain's units.

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Stuart Anderson's operates 84 restaurants under the names Cattle Company and Black Angus, all located on the West Coast.

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Bonanza has been putting more emphasis on training in recent months. Waiters are taught suggestive selling, and the focus is on developing better employee relationships. "We're more sensitive to the needs of our employees, and they, in turn, are more sensitive to customers," says Rogers. Part of this program is an intensive three-day training period. "There is a decrease in turnover and an increase in sales and customer counts," says Rogers.

The other large chain that began as a budget steak-house chain is Dayton, OH-based Ponderosa, with 401 company-owned units and 323 franchised units. Ponderosa has stayed more clearly in the lower-priced steak-house category, but it is also upgrading quality and image.

Recently, Ponderosa decided to replace tenderized utility-grade meat with more expensive USDA Choice beef. Depending on location, entrees are priced slightly higher. The change is supported by TV and newspaper advertising as well as point-of-purchase signage. The company also rolled out its Grand Buffet last year. The Grand Buffet includes an array of rotating appetizers, such as meatballs, chicken wings, clam strips, and popcorn shrimp, as well as hot pastas and sauces, soups, chili, and fruits.

Until recently, Ponderosa's future has been cloudy because of a succession of owners. The company was purchased last year by Secaucus, NJ-based Metromedia Co., a privately held holding- and investment company, from New York investor Asher Edelman. Edelman owned the company for only a year, but in that time cleaned out executive ranks, including president and chief executive officer Tom Russo and chairman Gerald Office. Frank Holdraker, a Pizza Hut alumnus, took Russo's place as president. Now, Ponderosa has announced that Holdraker has resigned, and at press time Metromedia was searching for a new president.

Last year, San Diego conglomerate Intermark Inc. paid $95 million to buy Western Sizzlin', the nation's third-largest steak-house chain. Intermark has two strong restaurant executives in Frank L. Carney, Western Sizzlin's new chairman, and Michael Stack, its president. Carney founded Pizza Hut, and Stack is a Pizza Hut alumnus.

Sizzler's policy of evolutionary menu expansion has enabled the 625-unit chain to offer more of a casual family dining experience, and that formula is working well.

Stack could not be reached for comment, but the chain clearly now has a very strong management team to help it grow in a time of change. The company has 585 units, and recently announced plans to double in size in the next five years. About 25% of the new units will be owned by the company; now, none are company-owned.

In the past, Stack has said that Western Sizzlin's appeal will be broadened with the addition of new poultry and fish dishes. This is intended to cut beef's menu share from 75% to 60%.

Franchisees are being asked to make extensive renovations, and the company is spending $250,000 to develop a new advertising strategy. Western Sizzlin' will expand in the Northeast and West from its Southeastern base.

Raleigh, NC-based Golden Corral steak houses are a major factor in the Southeast, where the majority of the company's 500 units are located. All but two are company-owned.

"In the last five years we've gone through a lot of expansion, and now we're looking at where we are," says Steve Fortlouis, director of marketing. Systemwide sales in 1988 reached $450 million, and sales trends are holding steady with flat customer counts.

Golden Corral still emphasizes beef, and Fortlouis says that USDA Choice beef is cut fresh on the premises every day. Some 50% of sales still derive from red meat, with a food bar contributing around 40%.

FOOD BARS. Dramatically changing many lower-priced steak houses is the giant food bar, which offers hot and cold entrees as well as an array of salads, fruits, and even desserts. The company that pioneered giant food bars is Greer, SC-based Ryan's Family Steak Houses, with 103 company-owned stores and 28 franchised stores.

The company faced some tumult about a year ago when same-store sales plunged 7.5% in June from their levels a year earlier, following drops in previous years. That summer, young president T. Mark McCall resigned. At that time, analysts attributed Ryan's stumbling performance to bad customer re-

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action to menu price increases, increased competition as other steakhouse chains emulated Ryan's, and "core customer fatigue."

Nevertheless, Ryan's still posts average unit volumes in excess of $2 million, a stunning feat considering that the average check is only about $5.

President Charles Way says that the declining sales trend has been reversed, with sales up 1% for the second quarter of 1989. Way points out that sales increases in the last couple of years before the downturn were so dramatic that Ryan's was bound to see some reversal. Sales grew 100% in 1986 and 50% in 1987. He says that the reversal was at its worst during the third and fourth quarters of 1988, when sales were down 9% and 8%, respectively.

Upscale steak houses are thriving by delivering the value of top-quality steak with all the trimmings.

The trademark Megabar is kept up to date with additions suggested by a task force made up of managers from eight stores in geographically diverse areas. "Regional variations in taste are very important," says Way.

"If you don't do a good volume, a food bar like this is very expensive," says Way. Changes in the kitchen are necessary to produce a large food bar. In addition, payroll and food costs soar. Ryan's now derives half of its sales from the Megabar, although management still considers Ryan's a steak house. "We're almost like two concepts in one," Way admits.

Ryan's founder, Alvin McCall, was also a cofounder of the Quincy's steakhouse chain, now owned by TW Services. TW Services also owns Canteen Co., Denny's, and El Pollo Loco, and is the largest Hardee's franchisee.

Competitors speak highly of Quincy's, and according to TW Services' 1988 annual report, the division achieved a record performance with substantial increases in average unit revenues as well as in customer traffic. Revenues totaled $250.9 million, 13.3% above the $221.5 million reported in 1987, and profit before taxes improved 18.7% to $17.3 million. Average unit revenues increased 14.4% in 1988 to $1.2 million, and average store traffic increased 11% over the previous year.

For the last couple of years, Quincy's has been going through a transformation in response to market changes. Like so many other steak houses, Quincy's has added an enormous buffet, containing as many as 80 items at any time, called the Country Sideboard.

When the first Quincy's opened in 1973, the menu included a few steak entrees and related items such as baked potatoes, vegetables, desserts, and beverages. Beginning in 1986, unit development slowed in order to adapt existing restaurants to the new Country Sideboard, which required major changes in facilities, operations, and training. Dining rooms had to be expanded to replace seating lost by installing the buffet. By the end of 1988, 30 units had been expanded. While the Country Sideboard was being rolled out, 211-unit Quincy's stopped adding units. Expansion has been renewed, with 10 restaurants scheduled to open in the Southeast in 1989.

Profitability of buffets has been problematic for some chains, but in 1988 Quincy's made considerable progress in working toward a reasonable balance of pricing and food and labor costs. Quincy's has also developed items for its regular menu, including grilled chicken, fried catfish, and baked whitefish. The chain is now testing a breakfast program, as well as the sale of a variety of fresh-baked products.

Founder Ruth Fertel operates 26 Ruth's Chris Steak Houses.

STEAK STRENGTH. Some midprice chains have been strengthening their positions as steak houses. One company that has been pursuing this strategy is Dallas-based Steak & Ale, once a leader in the steak-house segment. The company operates 160 units in 25 states, with sales estimated at $200 million.

Steak & Ale experienced difficulties during a long, convoluted struggle for ownership of parent Pillsbury. A British company, Grand Metropolitan PLC, purchased Pillsbury. Steak & Ale executives are now involved in a management buyout.

As a result, vice president of marketing Nick Castaldo and other executives are keeping mum until the management buyout is completed. Castaldo has been quoted as saying that Steak & Ale's strategy was to return to a position as a classic steak house that could be relied on to serve a consistently good steak.

Another chain that is keeping to a traditional course is Los Altos, CA-based Stuart Anderson's Restaurants, which is celebrating its 25th anniversary this year. According to vice president of marketing Julia Stewart, the company has served 215 million customers since opening in 1964. Stuart Anderson's operates 84 restaurants un-

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The budget steak chains that flourished a decade ago have been most affected by the changes.

der the names Cattle Company and Black Angus, all on the West Coast.

Company research also shows that Stuart Anderson's dominates over 50% of the market in the casual steak-house segment on the West Coast. "That means we're taking share, and it is clearly coming from independents and other steak chains," Stewart says.

After some experimentation a few years ago, Stuart Anderson's has now settled comfortably and squarely back into the steak-house segment, with a focus on getting "back to basics." In the 1960s, the first restaurants offered a complete steak dinner with salad and garlic bread for $2.95. Steak dinners are still the restaurant's stock-in-trade; but today the price of a top sirloin dinner is $7.50.

Over the years, the menu has been expanded to include fresh grilled fish, marinated chicken, combinations such as lobster and prime rib or steak and prawns, and desserts such as homemade apple dessert and triple chocolate cake. Stuart Anderson's has also added seasonal items such as chili in the winter and strawberry shortcake in the summer. Steak is the most popular item on the menu, however. Last year, the company sold six million pounds of beef, compared to one and a half million pounds of chicken, says Stewart.

Stuart Anderson's has gone through a number of ownership changes in recent years; now a privately owned company, it does not divulge sales figures. In 1986, Stuart Anderson's owner, Saga Corp., was acquired by Marriott Corp. Soon after, Marriott divested its restaurant holdings, and in February of 1987 the company was purchased by American Restaurant Group (ARG) Inc. of Newport Beach, CA. In addition to Stuart Anderson's, ARG operates Spoon's Grill and Bar, Grandy's, Spectrum Foods, and The Velvet Turtle.

The company will be refurbishing restaurants this year, keeping a Western theme and trademark oversize booths, but attempting a lighter, contemporary flavor. The company will also be expanding on the West Coast.

Another company squarely in the steak business is Memphis-based The Butcher Shop. At the five-unit chain, customers can charcoal-grill their own steaks over brick grill pits fired with hardwood charcoal. The charcoal pit is the center of the restaurant, and sizzling steaks are entertainment. Customers who don't want to cook steaks can enlist the chef's aid for an extra $2. In fact, two-thirds of customers opt for that, says owner Dennis Day.

Units are located in Dallas, Little Rock, AR, Knoxville, TN, Memphis, and Chicago, and another unit is under construction in Orlando, FL. The first unit opened in Memphis in 1981, and owner Day intends to continue expanding at a slow rate.

The Butcher Shop menu is very limited, and the kitchen does little more than bake potatoes and wash dishes. The Orlando restaurant will serve prime rib, and if that turns out to be a successful addition, prime rib will be added at other units. All steak offerings are displayed in the restaurant's in-house butcher shop, where actual cutting takes place. A hearty cut of steak with a baked potato, salad, and bread is offered for a fixed price, which is $17.95 in the Chicago unit. The Dallas restaurant is the small chain's highest-grossing unit, with $3.5 million in annual sales.

UPSCALE. For the classic top-of-the-line steak houses, business has never been better. These steak houses typically offer a clubby atmosphere and prime aged beef in hefty portions.

Some of these steak houses are institutions. Establishments like Peter Luger's in Brooklyn, The Palm in New York City (now expanding across the country), and Gene and Georgetti's in Chicago have defined their own very small niche. Most of these restaurants

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Morton's locations are always in the heart of a city's business district and near hotels to take advantage of convention traffic.

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Beef that's up to 95% lean means more lean beef per pound. More profit for you. Our beef is range fed, so it's naturally leaner. It's USDA inspected. And we pack it to suit your needs. Frozen or fresh chilled. A versatile product for meat processors, restaurants, retailers, or delis. Just ask your distributor. Or, for the distributor or importer nearest you write: Australian Meat and Live-stock Corporation, 805 Third Avenue, 11th Floor, New York, NY 10022. Or call 1-800-453-5600.

Australian Beef

more beef per pound.

STEAK

have exclusive agreements with meat suppliers for the very best cuts. These restaurants also age meat for two or three months for more flavor.

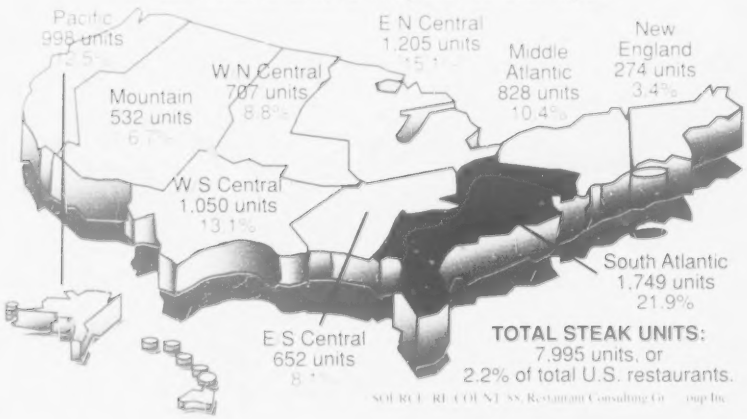
An example is the growing Morton's steak-house chain. The original Morton's opened in 1978 in Chicago's Rush Street area, at a time when interest in red meat was supposedly already declining. Later units opened in Washington, DC, Philadelphia, Boston, Atlanta, Denver, Dallas, New Orleans, and Rosemont and Westchester, IL.

In 1987 founder Arnie Morton, who also owns Chicago's landmark Arnie's, sold Morton's to a group of investors but stayed on as a creative consultant. The presidency went to Klaus Fritsch, who had worked with Morton for years.

Because Morton's is aimed at businessmen, locations are always in the

MORE SIZZLE IN SOUTH

Distribution of Steak units by U.S. Census Regions



SOURCE: RECOUNT '88, Restaurant Consulting Group Inc.

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heart of a city's business district. Most units are located in office buildings.

Although Morton's has added such diversions as grilled swordfish, shrimp chef Alexander, and fresh fish to the menu, the main attraction is hand-cut, prime, grain-fed beef. Cuts range from a popular 20-oz. New York strip to a gigantic 3-lb. Porterhouse. Most of the beef entrees are in the $20 to $25 range, but the 3-lb. Porterhouse commands an equally hefty $47.50. The average check, says Newburg, is about $35 with liquor.

Morton's is distinguished by its style of service. Various cuts of meats and other main course selections, as well as the fresh vegetables used in salads and side dishes, are displayed on a serving cart that is rolled up to each table.

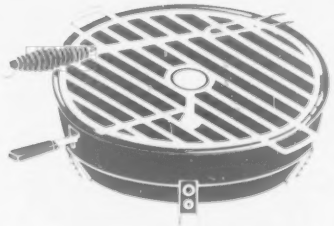
Another fine steak house on an expansion track is New Orleans-based Ruth's Chris Steak Houses. The restaurant company now has 26 units, strung from Washington, DC, and Florida on the East Coast to Beverly Hills and Honolulu on the West. Four are located in the company's home state of Louisiana.

The first Ruth's Chris opened in 1965, when founder Ruth Fertel bought a restaurant called Chris Steak House. To distinguish the new operation, she rechristened the establishment Ruth's Chris Steak House, and the unusual name has become an asset. "Once you finally learn the name, you never forget

THE TOP FIVE STEAK CHAINS

1988 Sales (in millions)

Beefier Steaks.



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it," says Fertel. "One of our ads says 'Steak as extraordinary as our name'."

By 1975, Fertel had opened three more company units and started franchising. Now, 10 restaurants are company-owned and 17 are franchised. Fertel was a recent recipient of the *Restaurant Business* Leadership Award.

"We don't feel that customers are eating less beef," she says. "Our business is up all over the country." In addition to beef, Ruth's Chris offers veal, lamb chops, and fish, but 85% of sales are from prime, corn-fed, aged-on-premise beef. Entrees range in price from $15 to $22, with the average check between $32 and $35.

SOMETHING NEW. Even a restaurant staple as all-American as steak can take on a foreign flavor with ease, as demonstrated at Houston's South American-style steak house and grill, Churrasco's. The restaurant specializes in *churrasco*, a charcoal-grilled, center-cut beef tenderloin basted with a traditional *chimichurri* sauce, which is made of olive oil, garlic, parsley, and spices.

Grilled steak is a popular entree in South America, and South American-style steak houses are beginning to crop up all over, from Miami to Los Angeles.

According to Churrasco's co-owner Michael Cordua, a Nicaraguan native, the restaurant's intent is to give customers the experience of dining in a fine, South American home. Adds Churrasco's co-owner Enrique Salvo, "We start with a soup and an appetizer, progress to the main course, then relax with a cup of very strong espresso."

Good service has become increasingly important in the steak segment.

Bonanza is remodeling its units; dining rooms have been opened up with more glass, and have been accentuated with brass and lighting.

Churrasco's offers a selection of appetizers, including empanadas made with dough from sweet, ripened plantains and filled with cheese or black beans. Also available are small white corn tortillas filled with a Latin American cream cheese, and made-on-the-premises *chorizo* sausage. *Ceviche*, a marinated seafood salad, is made with fresh shrimp, fish, and conch marinated in fresh herbs, lime, and coconut juice. Soups include *chupe de camarones*, with seafood stock and an assortment of lightly sautéed fresh vegetables. Black bean soup with smoked ham is also very popular.

Entrees include *medallones*, medallions of beef served with a creamy brandy sauce. Tenderloin of pork is served with tropical fruits and *achiote*, a South American spice, and accompanied by a Caribbean *salsa criolla*, composed of tomatoes, green peppers, onions, garlic, and chile peppers. Fresh fish is on the menu every day. Entrees are accompanied by several Latin American favorites, including *gallo pinto*, a rice-and-bean dish prepared Nicaraguan-style; green plantains; sweet-ripened plantains; and twice-baked potatoes. The menu is completed with a wine list of South American wines and a variety of Latin desserts.

Overall, it seems that there is still potential in the steak segment. Customers are still eating red meat, and they love steak. While consumption of red meat is declining, customers have clearly expressed their willingness to enjoy a fine steak when dining out.